

BEFORE THE
CALIFORNIA BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS
STATE OF CALIFORNIA

In the Matter of the Accusation Against:

Case No. AC-2012-17

MAYER HOFFMAN MCCANN P.C.
2301 Dupont Drive, Suite 200
Irvine, CA 92612

CPA Corporation License No. COR 5091

Respondent.

DECISION AND ORDER

The attached Stipulated Settlement and Disciplinary Order is hereby adopted by the California Board of Accountancy, Department of Consumer Affairs, as its Decision in this matter.

This Decision shall become effective on June 28, 2012.

It is so ORDERED May 29, 2012.



FOR THE CALIFORNIA
BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS

1 KAMALA D. HARRIS
Attorney General of California
2 JAMES M. LEDAKIS
Supervising Deputy Attorney General
3 CARL W. SONNE
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8
9 **BEFORE THE**
CALIFORNIA BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS
10 **STATE OF CALIFORNIA**

11 In the Matter of the Accusation Against:

Case No. AC-201 2-17

12 **MAYER HOFFMAN MCCANN P.C.**
13 **2301 Dupont Drive, Suite 200**
14 **Irvine, CA 92612**

STIPULATED SETTLEMENT AND
DISCIPLINARY ORDER

15 **CPA Corporation License No. COR 5091**

16 Respondent.

17
18 IT IS HEREBY STIPULATED AND AGREED by and between the parties to the above-
19 entitled proceedings that the following matters are true:

20 PARTIES

21 1. Patti Bowers (Complainant) is the Executive Officer of the California Board of
22 Accountancy. She brought this action solely in her official capacity and is represented in this
23 matter by Kamala D. Harris, Attorney General of the State of California, by Carl W. Sonne,
24 Deputy Attorney General.

25 2. Respondent Mayer Hoffman McCann P.C. (Respondent or MHM) is represented in
26 this proceeding by attorneys Stephen J. Tully, Esq. and John B. Greene, Esq., of Garrett & Tully,
27 whose address is: 4165 E. Thousand Oaks Blvd., Suite 201, Westlake Village, CA 91362.
28 Respondent is acting in this proceeding through Richard A. Howard, its authorized shareholder,

1 and he has been designated and authorized by MHM to enter into this agreement on behalf of the
2 firm (hereafter, "Authorized Representative").¹

3 3. On or about April 10, 2002, the California Board of Accountancy issued CPA
4 Corporation License No. COR 5091 to Mayer Hoffman McCann P.C. (Respondent or MHM).
5 The CPA Corporation License was in full force and effect at all times relevant to the charges
6 brought in Accusation No. AC-2012-17 and will expire on April 30, 2014, unless renewed.

7 JURISDICTION

8 4. Accusation No. AC-2012-17 was filed before the California Board of Accountancy
9 (CBA), Department of Consumer Affairs, and is currently pending against Respondent. The
10 Accusation and all other statutorily required documents were properly served on Respondent on
11 May 14, 2012. Respondent timely filed its Notice of Defense contesting the Accusation.

12 5. A copy of Accusation No. AC-2012-17 is attached as exhibit A and incorporated
13 herein by reference.

14 ADVISEMENT AND WAIVERS

15 6. Respondent has carefully read, fully discussed with counsel, and understands the
16 charges and allegations in Accusation No. AC-2012-17. Respondent has also carefully read, fully
17 discussed with counsel, and understands the effects of this Stipulated Settlement and Disciplinary
18 Order.

19 7. Respondent is fully aware of its legal rights in this matter, including the right to a
20 hearing on the charges and allegations in the Accusation; the right to confront and cross-examine
21 the witnesses against it; the right to present evidence and to testify on its own behalf; the right to
22 the issuance of subpoenas to compel the attendance of witnesses and the production of
23 documents; the right to reconsideration and court review of an adverse decision; and all other
24 rights accorded by the California Administrative Procedure Act and other applicable laws.

25
26
27 ¹ Mr. Howard is not otherwise involved in these proceedings and was not personally
28 involved in the circumstances which gave rise to the Accusation in this matter.

8. Respondent voluntarily, knowingly, and intelligently waives and gives up each and every right set forth above.

CULPABILITY

9. Respondent admits the truth of each and every charge and allegation in Accusation No. AC-2012-17.

10. Respondent agrees that its CPA Corporation License is subject to discipline and agrees to be bound by the CBA's probationary terms as set forth in the Disciplinary Order below.

CIRCUMSTANCES IN MITIGATION

11. Several factors mitigate the conduct of Respondent alleged in the Accusation in this matter, including the following:

- a. MHM has never been the subject of any prior disciplinary action by the CBA.
- b. MHM is accepting responsibility at an early stage in these proceedings.
- c. During the investigation of this matter, MHM has been cooperative in all respects, providing all documents requested, and voluntarily producing documents, electronic data and written submissions to assist in the investigative process.
- d. Prior to and throughout the CBA's investigation, MHM proactively developed and implemented remedial measures that enhanced and elevated procedures in its local government audit practice. These measures reduce the risk of a reoccurrence of the events outlined in the Accusation, and include:
 - i. MHM conducted an overall reexamination of its local government audit practice, and expanded procedures to, among other things, improve overall documentation, enhance the risk assessment planning process, and supplement evaluation of legal contingencies and communications with outside counsel.
 - ii. MHM implemented a new audit methodology for all industry groups, including the local government audit practice, identifying areas of

1 presumed high risk, and enhancing procedures that tailor audit
2 approaches to specific risks presented by an engagement.

3 iii. MHM instituted a consultation program in 2011 to encourage use of
4 national office resources to address and resolve unusual
5 circumstances or facts noted during the risk assessment planning
6 process.

7 iv. MHM relocated its regional Attest Practice Leader to its Orange
8 County office, in order to further ensure direct oversight and access
9 for the firm's local government audit teams.

10 v. MHM conducted two separate two-day training programs for its
11 California government audit teams which addressed, among other
12 things, the above procedures, methodology and program, along with
13 audit tools, techniques and documentation, and in-depth training in
14 areas now assessed to be high risk in the local government
15 environment.

16 vi. MHM commissioned and paid for an independent peer review
17 examination of the firm's California government audit practice by
18 one of the leading specialists in the nation, who concluded that
19 MHM's system of quality control in that specific practice area
20 complies with professional standards and pronouncements.
21

22 RESERVATION

23 12. The admissions made by Respondent herein are only for the purposes of this
24 proceeding, or any other proceedings in which the California Board of Accountancy or other
25 California professional licensing agency is involved, and shall not be admissible in any other
26 criminal or civil proceeding.

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DISCIPLINARY ORDER

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1 1. **Obey All Laws.** Respondent shall obey all federal, California, other states' and local
2 laws, including those rules relating to the practice of public accountancy in California.

3 2. **Submit Written Reports.** Respondent shall submit, within ten (10) days of
4 completion of the quarter, written reports to the CBA on a form obtained from the CBA. The
5 Respondent shall submit, under penalty of perjury, such other written reports, declarations, and
6 verification of actions as are required. These declarations shall contain statements relative to
7 Respondent's compliance with all the terms and conditions of probation. Respondent shall
8 immediately execute all release of information forms as may be required by the CBA or its
9 representatives.

10 3. **Personal Appearances.** Respondent shall, during the period of probation, appear in
11 person at interviews/meetings as directed by the CBA or its designated representatives, provided
12 such notification is accomplished in a timely manner.

13 4. **Comply With Probation.** Respondent shall fully comply with the terms and
14 conditions of the probation imposed by the CBA and shall cooperate fully with representatives of
15 the CBA in its monitoring and investigation of the Respondent's compliance with probation terms
16 and conditions.

17 5. **Practice Investigation.** Respondent shall be subject to, and shall permit, practice
18 investigation of the Respondent's professional practice. Such a practice investigation shall be
19 conducted by representatives of the CBA, provided notification of such review is accomplished in
20 a timely manner.

21 6. **Comply With Citations.** Respondent shall comply with all final orders resulting
22 from citations issued by the CBA.

23 7. **Violation of Probation.** If Respondent violates probation in any respect, the CBA,
24 after giving Respondent notice and an opportunity to be heard, may revoke probation and carry
25 out the disciplinary order that was stayed. If an accusation or a petition to revoke probation is
26 filed against Respondent during probation, the CBA shall have continuing jurisdiction until the
27 matter is final, and the period of probation shall be extended until the matter is final.

28 ///

1 8. **Completion of Probation.** Upon successful completion of probation, Respondent's
2 license will be fully restored.

3 9. **Administrative Penalty.** Respondent shall pay to the CBA an administrative penalty
4 in the amount of \$300,000.00. The payment of the administrative penalty shall be made to the
5 CBA within sixty (60) days of the effective date of this Order.

6 10. **Dissemination of the Stipulated Settlement.** Within fifteen (15) days of the
7 effective date of this Order, Respondent shall disseminate this Stipulated Settlement and
8 Disciplinary Order to all of its professional personnel officed in California and shall confirm such
9 dissemination in writing to the CBA.

10 11. **Peer Review.** During the period of probation, all audit, review, and compilation
11 reports and work papers shall be subject to a peer review of the same purpose and scope of the
12 peer review referred to in paragraph 11(d)(vi), above, by a Board-recognized peer review
13 program provider at Respondent's expense. The peer review shall specifically be focused on
14 Respondent's governmental audit practice in California. The peer review shall be completed by
15 July 31, 2013, which time frame shall be incorporated as a condition of this probation. Within 45
16 days of the peer review report being accepted by a Board-recognized peer review program
17 provider, respondent shall submit to the CBA a copy of the peer review report, including any
18 materials documenting the prescription of remedial or corrective actions imposed by the Board-
19 recognized peer review program provider. Respondent shall also submit, if available, any
20 materials documenting completion of any or all of the prescribed remedial or corrective actions.

21 12. **Governmental Audit Training Sessions for Respondent's Governmental Audit**
22 **Personnel.** Prior to December 31, 2013, Respondent shall provide two eight-hour training
23 courses for all those accountants practicing in Respondent's California governmental audit
24 practice group. These training sessions shall address governmental audit practice subjects,
25 including audit tools, testing and techniques concerning areas that are commonly assessed to be
26 high risk in current local governmental audit practice. Respondent will provide a copy with the
27 agenda and related materials for review by the CBA at least two weeks prior to the training
28 sessions. Within thirty (30) days following the training sessions, Respondent shall provide a list

1 of those personnel who attended. For those accountants who attend, the 16-hours of training shall
2 not be counted towards the CBA's continuing education requirements (set forth in Business and
3 Professions Code section 5027 and Title 16, California Code of Regulations section 87), but
4 otherwise may be counted towards requirements for federal or non-CBA purposes or programs.

5 13. **Cost Reimbursement.** Respondent shall reimburse the CBA a sum not to exceed
6 \$50,000.00 for its investigation and prosecution costs of this matter, including those costs of
7 probation monitoring. The CBA will periodically present Respondent with a certified statement
8 of costs to date, including additional costs incurred during probation, and Respondent shall pay
9 those costs to the CBA within thirty (30) days thereafter. If costs are billed after the completion
10 of the probationary period, the obligation to pay the costs shall continue, but the probation shall
11 not be extended thereby.

12 ACCEPTANCE

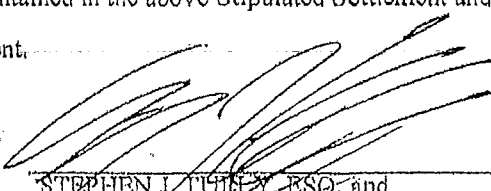
13 I have carefully read the above Stipulated Settlement and Disciplinary Order and have fully
14 discussed it with my attorney, Stephen J. Tully, Esq. I understand the stipulation and the effect it
15 will have on my CPA Corporation License. I enter into this Stipulated Settlement and
16 Disciplinary Order voluntarily, knowingly, and intelligently, and agree to be bound by the
17 Decision and Order of the California Board of Accountancy.

18
19 DATED: 5/15/12


MAYER HOFFMAN MCCANN P.C.
By its Authorized Representative

21 I have read and fully discussed with Respondent Mayer Hoffman McCann P.C. the terms
22 and conditions and other matters contained in the above Stipulated Settlement and Disciplinary
23 Order. I approve its form and content.

24
25 DATED: 5-15-12


STEPHEN J. TULLY, ESQ. and
JOHN B. GREENE, ESQ.
Attorney for Respondent

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ENDORSEMENT

The foregoing Stipulated Settlement and Disciplinary Order is hereby respectfully submitted for consideration by the California Board of Accountancy of the Department of Consumer Affairs.

Dated:

May 15, 2012

Respectfully submitted,

KAMALA D. HARRIS
Attorney General of California
JAMES M. LEDAKIS
Supervising Deputy Attorney General



CARL W. SONNE
Deputy Attorney General
Attorneys for Complainant

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Exhibit A

Accusation No. AC-2012-17

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Attorney General of California
2 JAMES M. LEDAKIS
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3 CARL W. SONNE
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11 In the Matter of the Accusation Against:

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12 **MAYER HOFFMAN MCCANN P.C.**
13 **2301 Dupont Drive, Suite 200**
14 **Irvine, CA 92612**

A C C U S A T I O N

15 **CPA Corporation License No. COR 5091**

16 Respondent.

17 Complainant alleges:

18 **PARTIES**

19 1. Patti Bowers (Complainant) brings this Accusation solely in her official capacity as
20 the Executive Officer of the California Board of Accountancy, Department of Consumer Affairs.

21 2. On or about April 10, 2002, the California Board of Accountancy issued CPA
22 Corporation License Number COR 5091 to Mayer Hoffman McCann P.C. (Respondent). The
23 CPA Corporation License was in full force and effect at all times relevant to the charges brought
24 herein and will expire on April 30, 2014, unless renewed.

25 3. This Accusation is brought before the California Board of Accountancy (CBA),
26 Department of Consumer Affairs, under the authority of the following laws. All section
27 references are to the Business and Professions Code unless otherwise indicated.
28

1 4. Section 5097 states in pertinent part:

2 (a) Audit documentation shall be a licensee's records of the procedures applied, the
3 tests performed, the information obtained, and the pertinent conclusions reached in
4 an audit engagement. Audit documentation shall include, but is not limited to,
5 programs, analyses, memoranda, letters of confirmation and representation, copies
6 or abstracts of company documents, and schedules or commentaries prepared or
7 obtained by the licensee.

8 (b) Audit documentation shall contain sufficient documentation to enable a
9 reviewer with relevant knowledge and experience, having no previous connection
10 with the audit engagement, to understand the nature, timing, extent, and results of
11 the auditing or other procedures performed, evidence obtained, and conclusions
12 reached, and to determine the identity of the persons who performed and reviewed
13 the work.

14 (c) Failure of the audit documentation to document the procedures applied, tests
15 performed, evidence obtained, and relevant conclusions reached in an engagement
16 shall raise a presumption that the procedures were not applied, tests were not
17 performed, information was not obtained, and relevant conclusions were not
18 reached. This presumption shall be a rebuttable presumption affecting the burden
19 of proof relative to those portions of the audit that are not documented as required
20 in subdivision (b). The burden may be met by a preponderance of the evidence.

21 5. Section 5100 states:

22 After notice and hearing the board may revoke, suspend, or refuse to renew
23 any permit or certificate granted under Article 4 (commencing with Section 5070)
24 and Article 5 (commencing with Section 5080), or may censure the holder of that
25 permit or certificate for unprofessional conduct that includes, but is not limited to,
26 one or any combination of the following causes:

27

28 (c) Dishonesty, fraud, gross negligence, or repeated negligent acts
committed in the same or different engagements, for the same or different clients,
or any combination of engagements or clients, each resulting in a violation of
applicable professional standards that indicate a lack of competency in the practice
of public accountancy or in the performance of the bookkeeping operations
described in Section 5052.

....

(e) Violation of Section 5097.

....

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6. Section 5107(a) of the Code states:

The executive officer of the board may request the administrative law judge, as part of the proposed decision in a disciplinary proceeding, to direct any holder of a permit or certificate found to have committed a violation or violations of this chapter to pay to the board all reasonable costs of investigation and prosecution of the case, including, but not limited to, attorneys' fees. The board shall not recover costs incurred at the administrative hearing.

7. Section 5109 of the Code states:

The expiration, cancellation, forfeiture, or suspension of a license, practice privilege, or other authority to practice public accountancy by operation of law or by order or decision of the board or a court of law, or the voluntary surrender of a license by a licensee shall not deprive the board of jurisdiction to commence or proceed with any investigation of or action or disciplinary proceeding against the licensee, or to render a decision suspending or revoking the license.

8. Section 5116 of the Code provides that the CBA, after appropriate notice and an opportunity for hearing, may order any licensee or applicant for licensure or examination to pay an administrative penalty as part of any disciplinary proceeding.

9. Section 5116.2 of the Code states:

In accordance with Section 5116 and applicable regulations any licensee who violates subdivision (a), (c), (i), (j) or (k) of Section 5100 may be assessed an administrative penalty of not more than one million dollars (\$1,000,000) for the first violation and not more than five million dollars (\$5,000,000) for any subsequent violation, except that a licensee who is a natural person may be assessed an administrative penalty of not more than fifty thousand dollars (\$50,000) for the first violation and not more than one hundred thousand dollars (\$100,000) for any subsequent violation.

PROFESSIONAL STANDARDS, REQUIREMENTS AND GUIDELINES

10. Professional standards¹, requirements and other guidelines of practice pertinent to this Accusation for audits of local governmental units, include, without limitation, the standards and requirements set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States, often referred to as generally accepted government auditing standards (GAGAS) or Yellow Book; U.S. generally accepted auditing standards (GAAS)²; Office of

¹ All references herein to standards and other authoritative literature are to the versions in effect at the time the audit was performed.

² Standards applicable to the performance of an audit required by Generally Accepted Auditing (continued...)

1 Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-*
2 *Profit Organizations*. These include the following specific standards referenced in this
3 Accusation:

4 (a) AU 150.02 (GAAS) provides with respect to *Standards of Field Work*
5 that:

6 "1. The auditor must adequately plan the work and must properly super-
7 vise any assistants.

8 2. The auditor must obtain a sufficient understanding of the entity and
9 its environment, including its internal control, to assess the risk of ma-
10 terial misstatement of the financial statements whether due to error or
fraud, and to design the nature, timing, and extent of further audit
procedures.

11 3. The auditor must obtain sufficient appropriate audit evidence by per-
12 forming audit procedures to afford a reasonable basis for an opinion
regarding the financial statements under audit."

13 (b) AU 330.34 (GAAS) establishes guidelines for the confirmation process in
14 audits performed in accordance with generally accepted auditing standards. There
15 is a presumption that confirmation requests for accounts receivable will be made in
16 a GAAS audit unless one of the following conditions is true:

- 17 • Accounts receivable are immaterial to the financial statements.
- 18 • The use of confirmations would be ineffective.
- 19 • The auditor's combined assessed level of inherent and control risk is low,
20 and the assessed level, in conjunction with the evidence expected to be
21 provided by analytical procedures or other substantive tests of details, is
22 sufficient to reduce audit risk to an acceptably low level for the applicable
23 financial statement assertions. In many situations, both confirmation of
24 accounts receivable and other substantive tests of details are necessary to
reduce audit risk to an acceptably low level for the applicable financial
statement assertions.

25 When confirmations are not requested, documentation should be made of
26 how the auditor overcame this presumption.

27 Standards (GAAS) are discussed in the Statements on Auditing Standards (SAS) and are codified
28 by the AICPA. The statements are codified by the "AU" number.

1 (c) **AU 337.08 (GAAS)** provides that a letter of audit inquiry to legal counsel
2 is the primary means of corroborating information furnished by management
3 concerning litigation, claims, and assessments. The letter is sent to inside counsel
4 or outside lawyers who have the primary responsibility for, and knowledge of,
5 particular litigation, claims, or assessments.

6 (d) **AU 337.10 (GAAS)** provides, in part, that the auditor should appropriately
7 document conclusions reached concerning the need for or disclosure of litigation,
8 claims, and assessments.

9
10 (e) **AU 339.10 (GAAS)** provides that the auditor should prepare audit
11 documentation that enables an experienced auditor, having no previous connection
12 to the audit, to understand:

- 13 a. "The nature, timing, and extent of auditing procedures performed to
14 comply with SASs and applicable legal and regulatory requirements;
15 b. The results of the audit procedures performed and the audit evidence
16 obtained;
17 c. The conclusions reached on significant matters; and
18 d. That the accounting records agree or reconcile with the audited financial
statements or other audited information."

19 (f) **Section 1.22 (Yellow Book)** states, omitting any footnotes, that:

20 "Financial audits provide an independent assessment of and reasonable
21 assurance about whether an entity's reported financial condition, results, and use
22 of resources are presented fairly in accordance with recognized criteria. Reporting
23 on financial audits performed in accordance with GAGAS also includes
24 reports on internal control, compliance with laws and regulations, and provisions
of contracts and grant agreements as they relate to financial transactions, systems,
and processes. Financial audits performed under GAGAS include financial
statement audits and other related financial audits:

25 a. Financial statement audits: The primary purpose of a financial statement
26 audit is to provide reasonable assurance through an opinion (or disclaim an
27 opinion) about whether an entity's financial statements are presented fairly in all
material respects in conformity with generally accepted accounting principles
(GAAP), or with a comprehensive basis of accounting other than GAAP.

28 b. Other types of financial audits: Other types of financial audits under
GAGAS provide for different levels of assurance and entail various scopes of

work, including: (1) providing special reports, such as for specified elements, accounts, or items of a financial statement; (2) reviewing interim financial information; (3) issuing letters for underwriters and certain other requesting parties; (4) reporting on the controls over processing of transactions by service organizations; and (5) auditing compliance with regulations relating to federal award expenditures and other governmental financial assistance in conjunction with or as a byproduct of a financial statement audit."

(g) **Section 1.31 (Yellow Book)** states, omitting any footnotes, that:

"Compliance audit objectives relate to compliance criteria established by laws, regulations, contract provisions, grant agreements, and other requirements that could affect the acquisition, protection, use, and disposition of the entity's resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Compliance objectives include determining whether

a. the purpose of the program, the manner in which it is to be conducted, the services delivered, the outcomes, or the population it serves is in compliance with laws, regulations, contract provisions, grant agreements, and other requirements;

b. government services and benefits are distributed or delivered to citizens based on the individual's eligibility to obtain those services and benefits;

c. incurred or proposed costs are in compliance with applicable laws, regulations, and contracts or grant agreements; and

d. revenues received are in compliance with applicable laws, regulations, and contract or grant agreements."

(h) **Section 4.01 (Yellow Book)** states, omitting any footnotes, that:

"a. This chapter establishes field work standards and provides guidance for financial audits conducted in accordance with generally accepted government auditing standards (GAGAS). This chapter identifies the American Institute of Certified Public Accountants (AICPA) field work standards and prescribes additional standards for financial audits performed in accordance with GAGAS.

a. For financial audits, GAGAS incorporate the AICPA field work and reporting standards and the related statements on auditing standards (SAS) unless specifically excluded or modified by GAGAS."

(i) **Section 4.03 (Yellow Book)** states, omitting any footnotes, that:

"The three AICPA generally accepted standards of field work are as follows:
...

b. The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.

c. The auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit."

1 (j) Section 4.04 (Yellow Book) states, omitting any footnotes, that:

2 "GAGAS establish field work standards for financial audits in addition to the
3 requirements contained in the AICPA standards. Auditors should comply with
4 these additional standards when citing GAGAS in their audit reports. The
5 additional government auditing standards relate to:

6 ...
7 e. audit documentation (see paragraphs 4.19 through 4.24)."

8 (k) Section 4.19 (Yellow Book) states, omitting any footnotes, that:

9 "Under AICPA standards and GAGAS, auditors must prepare audit documentation
10 in connection with each audit in sufficient detail to provide a clear understanding
11 of the work performed (including the nature, timing, extent, and results of audit
12 procedures performed), the audit evidence obtained and its source, and the
13 conclusions reached. Under AICPA standards and GAGAS, auditors should
14 prepare audit documentation that enables an experienced auditor, having no
15 previous connection to the audit, to understand [:]

16 a. the nature, timing, and extent of auditing procedures performed to comply with
17 GAGAS and other applicable standards and requirements;

18 b. the results of the audit procedures performed and the audit evidence obtained;

19 c. the conclusions reached on significant matters; and

20 d. that the accounting records agree or reconcile with the audited financial
21 statements or other audited information."

22 (l) OMB Circular A-133 describes a four-step process to determine major programs.

23 Under Step 1, programs are classified as either Type A or Type B. Step 2 requires the
24 auditor to identify Type A programs that are low-risk. Step 3 requires auditors to use
25 professional judgment and the federal program risk criteria to identify high-risk Type B
26 programs. If the auditor elects Option 1 as described in Step 4, all Type B programs
27 exceeding the threshold described in the Circular must be assessed. However, if the
28 auditor selects Option 2 under Step 4, the auditor may limit the identification of high-risk
Type B programs to the number of low-risk Type A programs.

(m) OMB Circular A-133 Compliance Supplement (June 2009), Department of
Housing and Urban Development (CFDA 14.218) Community Development Block
Grants/Entitlement Grants, contains the following audit procedures:

///

1 "Suggested Audit Procedures

- 2 a. Verify that the grantee has a citizen participation plan.
- 3 b. Review the plan to verify that it provides for public hearings,
4 publication, public comment, access to records, and consideration of
5 comments.
- 6 c. Examine the grantee's records for evidence that the elements of the
7 citizen's participation plan were followed as the grantee certified."

8 In addition, The Los Angeles County Citizen Participation Plan states:

9 "Each participating city gives its constituency the opportunity to provide
10 citizen input on housing and community development needs at a
11 community meeting or public hearing by:

- 12 ▪ Holding one or more community meetings or conducting one public
13 hearing with a minimum of 14 calendar day notification period.
- 14 ▪ Soliciting citizen participation through an advertisement published in
15 local newspaper whose primary circulation is within the city.
- 16 ▪ Soliciting citizen participation through notices posted in public
17 buildings within the city at least 14 calendar days before the meeting
18 date."

19 The Compliance Supplement requires the firm to determine whether the grantee:

- 20 ▪ Is obligating and expending program funds only after HUD's approval
21 of the request for release of funds (RROF).
- 22 ▪ Determined whether environmental reviews are being conducted, when
23 required.

24 (n) **The Davis-Bacon Act**, 41 U.S.C. § 3141, requires that "all laborers and mechanics
25 employed by contractors or subcontractors to work on construction contracts in excess of
26 \$2,000 financed by Federal assistance funds must be paid wages not less than those
27 established for the locality of the project (prevailing wage rates) by the DOL..."

28 (o) **OMB Circular A-87**, states, in part:

"Support for salaries and wages. These standards regarding time distribution are in
addition to the standards for payroll documentation. [...]"

(3) Where employees are expected to work solely on a single Federal
award or cost objective, charges for their salaries and wages will be
supported by periodic certifications that the employees worked solely on that
program for the period covered by the certification. These certifications will
be prepared at least semi-annually and will be signed by the employee or

1 supervisory official having first hand knowledge of the work performed by
2 the employee.

3 (4) Where employees work on multiple activities or cost objectives, a
4 distribution of their salaries or wages will be supported by personnel activity
5 reports or equivalent documentation ..."

6 "Suggested Audit Procedures – Compliance

7 1. Select a sample of construction contracts and subcontracts greater
8 than \$2,000 that are covered by the Davis-Bacon Act and perform the following
9 procedures:

10 a. Verify that the required prevailing wage rate clauses were
11 included.

12 b. Verify the contractor or subcontractor submitted weekly
13 required certified payrolls."

14 **FACTS**

15 11. Conrad and Associates LLP was the independent auditor for the City of Bell from
16 1994 to 2006. Respondent, which is based in Leawood, Kansas, bought Conrad and Associates
17 LLP in 2006 and formed a new division that specializes in audits of municipalities and
18 government agencies. Respondent's office, located in Irvine, California, has been the
19 independent auditor for the City of Bell (Bell), a municipality located in Southern California, and
20 the Bell Community Redevelopment Agency (Bell CRA) since 2006.

21 12. The California State Controllers Office (SCO) is charged with the duty to review
22 the audit reports for California local governments in accordance with, *inter alia*, the Federal
23 Single Audit Act of 1984 as amended by the Single Audit Act Amendment of 1996 and
24 amendments in conjunction with the OMB Circular A-133. The California State Administrative
25 Manual, section 20070, section 2, subparagraph f, states:

26 The SCO will review and monitor the audit reports issued by external independent
27 auditors. The SCO will determine whether or not the audit reports conform to
28 *Governmental Auditing Standards*.

13. In December, 2010, the SCO issued its "MAYER HOFFMAN MCCANN. P.C.
(IRVINE OFFICE) Review Report QUALITY CONTROL REVIEW For the Firm's Audits of
City of Bell and Bell Community Redevelopment Agency for the Fiscal Year Ended June 30,
2009" (SCO Quality Review Report). Thereafter, the CBA initiated an investigation of
Respondent's audit of Bell and Bell CRA.

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- 1 a. Auditors perform compliance testing using the OMB Circular A-133
2 Compliance Supplement. Respondent's audit documentation reflected the
3 Respondent's use of the March 2008 Compliance Supplement rather than the
4 March 2009 Compliance Supplement. There was no documentation that
5 Respondent reviewed the Compliance Supplement to determine the effect of
6 any changes on Respondent's audit. (Yellow Book and Circular A-133.)
- 7 b. Circular A-133 compliance testing required additional compliance testing
8 under OMB Circular A-87. Such compliance testing required that salaries and
9 wages for the City's employees that worked solely on a single Federal award
10 or cost objective were supported by periodic certifications that the employees
11 worked solely on that program for the period covered by the certification.
12 Respondent failed to document in its testing of payroll data references to or
13 conclusions regarding the payroll certifications. (Yellow Book, Circular A-133
14 and Circular A-87.)
- 15 c. Respondent's documentation did not reflect the performance of minimum
16 procedures with regard to the City's compliance with all provisions of the
17 Citizen Participation Plan as required by the March 2009 Compliance
18 Supplement. (Yellow Book and Circular A-133.)
- 19 d. Respondent's audit documentation reflected that Respondent performed
20 analysis and tests of controls for the interim period July 1, 2008 through March
21 23, 2009. Respondent did not adequately document the effect of the amounts,
22 accounts, transactions, and balances from the period March 24, 2009 through
23 June 30, 2009, on the City's compliance with the Davis Bacon Act,
24 expenditure testing, and other compliance testing as noted above. (Yellow
25 Book.)
- 26 e. Compliance testing required that Respondent determine whether Bell and the
27 Bell CRA complied with current applicable laws and regulations that could
28 have a material effect on Bell or Bell CRA's operations. Respondent's

1 audit documentation does not reflect that Respondent reviewed all applicable
2 laws and regulations that affected Bell and the Bell CRA's operations or
3 inquired of Bell and the Bell CRA to determine whether they were in
4 compliance with all applicable laws and regulations, including California
5 Assembly Bill 1389 (Chapter 751, Statutes of 2008). Assembly Bill
6 1389 added Health & Safety Code section 33684, and required the SCO to
7 submit a report summarizing specified information reported by redevelopment
8 agencies regarding their tax increment payments to local taxing entities. The
9 SCO listed the Bell CRA in its "Report on Property Tax Pass-Through
10 Payments" as of July 7, 2009," prior to the issuance of Respondent's auditors'
11 report. (Yellow Book and Circular A-133.)

12 **SECOND CAUSE FOR DISCIPLINE**

13 **(Insufficient Audit Documentation)**

14 15. Respondent is subject to disciplinary action under Code section 5100(e) in that, in
15 violation of Code section 5097, Respondent insufficiently documented its audit for Bell and the
16 Bell CRA for the year ending June 30, 2009 for each of the reasons set forth in paragraph 14,
17 above.

18 **PRAYER**

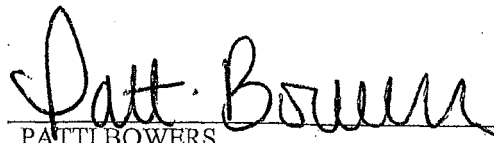
19 WHEREFORE, Complainant requests that a hearing be held on the matters herein alleged,
20 and that following the hearing, the California Board of Accountancy issue a decision:

- 21 1. Revoking or suspending or otherwise imposing discipline upon CPA Corporation
22 License Number COR 5091, issued to Mayer Hoffman McCann P.C.;
- 23 2. Ordering Mayer Hoffman McCann P.C. to pay the California Board of Accountancy
24 the reasonable costs of the investigation and enforcement of this case, pursuant to Business and
25 Professions Code section 5107;
- 26 3. Ordering Mayer Hoffman McCann P.C. to pay the California Board of Accountancy
27 an administrative penalty pursuant to Business and Professions Code section 5116; and
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4. Taking such other and further action as deemed necessary and proper.

DATED: May 14, 2012



PATTI BOWERS
Executive Officer
California Board of Accountancy
Department of Consumer Affairs
State of California
Complainant

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